ECONOMIC PREVIEW

REGIONS

Week of February 14, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 15-16 FOMC meeting):* Target Range Mid-point: 0.125 to 0.625 percent Median Target Range Mid-point: 0.375 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	Sure, Phaedrus wasn't actually commenting on economic data, but the observation that things are not always what they seem applies nonetheless. Despite considerable evidence to the contrary from higher frequency indicators and survey data, the top-tier economic data for the month of January make it seem as though the rapid and wide spread of the Omicron variant left the U.S. economy unfazed. That is mainly a function of what in any January is extremely generous seasonal adjustment to account for normal declines in economic activity. Seasonal adjustment has been quite tricky since the onset of the pandemic, as evidenced by much of the January data.
January PPI: Final Demand Tuesday, 2/15 Range: 0.3 to 0.8 percent Median: 0.5 percent	Dec = +0.3%	Up by 0.6 percent, which would translate into an over-the-year increase of 9.2 percent.
January PPI: Core Tuesday, 2/15 Range: 0.3 to 0.1 percent Median: 0.4 percent	Dec = +0.5%	Up by 0.5 percent, for a year-on-year increase of 7.9 percent.
January Retail Sales: Total Wednesday, 2/16 Range: 0.3 to 5.5 percent Median: 2.0 percent	Dec = -1.9%	Up by 4.7 percent. To help put our well above consensus January forecast in context, we'll note that our forecasts for November and December retail sales were far below, but much closer to the mark than, the consensus forecasts. Sure, as they say in the mutual fund business, past performance is no guarantee of future results, but we arrived at our January forecast by the same means we arrived at our November and December forecasts, i.e., by accounting for patterns in the not seasonally adjusted data and the seasonal factors used to produce the estimates of seasonally adjusted sales. For instance, on a not seasonally adjusted basis, total retail sales rose by 10 percent in December, a much smaller increase than is typical for the month which, in conjunction with punitive seasonal factors, yielded the reported 1.9 percent decline in seasonally adjusted sales. That December's increase in unadjusted sales was smaller than normal suggests this January's decline will have been smaller than is typical for the month. Our forecast would have not seasonally adjusted retail sales down by 18.4 percent in January which, while seemingly harsh, is smaller than the average January decline of 20.7 percent over the 2000-2021 period. As an illustration of the power of seasonal adjustment, recall that in January 2021, unadjusted retail sales fell by "only" 15.4 percent which, in conjunction with very forgiving January seasonal factors, yielded a 7.6 percent increase in sales on a seasonally adjusted basis. The wide gap between forecasts of total and ex-auto retail sales reflects what should be sharply higher sales at motor vehicle dealers. Unit motor vehicle sales jumped to an annual rate of 15.042 million units in January from December's sales rate of 12.540 million units. Kind of. Not seasonally adjusted unit sales fell by 17.7 percent in January, compared to a typical January decline of closer to 30 percent, hence the reported jump in seasonally adjusted unit sales. This should flow through to the retail sales data and will be compounded by higher vehicle prices. This raises a useful point to keep in mind when processing the retail sales data, which is that sales are reported on a nominal basis, i.e., they are not adjusted for price changes. The Consumer Price Index shows prices for consumer goods excluding food and energy rose by 1.0 percent in January (up 11.7 percent year-on-year) after a 1.2 percent increase in December. To be sure, higher prices for food and energy will have weighed on spending in other areas for many households, and still-limited supplies of many goods, particularly consumer durable goods, will have been an added weight on January sales. The same can be said of the expiration of the extended Child Care Tax Credit. So, while it would seem that the risks to our forecast of January retail sales are lined up to the downside, the verdict won't be rendered by the seasonally adjusted headline sales number but instead by the not seasonally adjusted data.
January Retail Sales: Ex-Auto Wednesday, 2/16 Range: -1.3 to 2.1 percent Median: 1.0 percent	Dec = -2.3%	Up by 1.8 percent.
January Retail Sales: Control Group Wednesday, 2/16 Range: -0.1 to 3.2 percent Median: 1.4 percent	Dec = -3.1%	Up by 2.3 percent.

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January Industrial Production Wednesday, 2/16 Range: -0.1 to 1.0 percent Median: 0.5 percent	Dec = -0.1%	Up by 0.7 percent. Aggregate private sector hours worked fell in January, in part reflecting COVID-related absences which were widespread across industry groups. Still, higher motor vehicle assemblies should provide at least somewhat of an offset in terms of total manufacturing output, helping mitigate the impacts of absences on top-line industrial production. At the same time, what should be a sizeable increase in utilities output will provide a boost to the headline index.
January Capacity Utilization Rate Wednesday, 2/16 Range: 76.3 to 77.4 percent Median: 76.8 percent	Dec = 76.5%	Up to 77.0 percent.
December Business Inventories Wednesday, 2/16 Range: -0.5 to 2.3 percent Median: 2.1 percent	Nov = +1.3%	We look for total business inventories to be up by 2.2 percent, and for total business sales to be down by 0.3 percent.
January Building Permits Thursday, 2/17 Range: 1.650 to 1.890 million units Median: 1.750 million units SAAR	Dec = 1.885 million units SAAR	Down to an annualized rate of 1.844 million units. On a not seasonally adjusted basis, we look for total permit issuance of 132,200 units, well below December's count of 153,200 units. Recall, however, that December's permit tally was bolstered by a surge in multi-family permits in the Northeast region due to expiring tax incentives in the Philadelphia metro area. Our forecast anticipates multi-family permits settling back to what, prior to December, was still a somewhat elevated level, with a modest decline in single family permits. With materials supply constraints having intensified over the latter months of 2021, many builders began 2022 by tightening the self-imposed sales caps they had operated under over the second half of 2021, which we expect will have weighed on single family permit issuance in January. Seasonal adjustment should flatter the January data, which will have to be accounted for when interpreting the headline numbers on permits and starts.
January Housing Starts Thursday, 2/17 Range: 1.570 to 1.753 million units Median: 1.696 million units SAAR	Dec = 1.702 million units SAAR	Up to an annualized rate of 1.733 million units. On a not seasonally adjusted basis, we look for total starts of 123,700 units, up from 120,300 units in December, with an increase in multi-family starts offsetting a decline in single family starts. As if the multi-family data weren't already volatile enough, they could be even more volatile in the months ahead depending on how the timing of starts in the Northeast region plays out after December's spike in permit issuance, which of course will be impacted by materials and labor supply constraints. In the single family segment, even though many builders have been capping sales over the past several months so they could focus on working down sizable backlogs of unfilled orders, they have made little headway thanks to constraints on materials supplies and ongoing labor supply issues. While single family completions did increase in December, there were still almost 750,000 single family units under construction and another 141,000 single family units which had been permitted but not yet started. So, in addition to single family starts, these will be the two metrics in the January data (not seasonally adjusted, of course) we'll be most focused on.
January Leading Economic Index Friday, 2/18 Range: -1.0 to 0.4 percent Median: 0.2 percent	Dec = +0.8%	Down by 0.4 percent.
January Existing Home Sales Friday, 2/18 Range: 5.810 to 6.520 million units Median: 6.100 million units SAAR	Dec = 6.180 million units SAAR	Up to an annualized rate of 6.210 million units. On a not seasonally adjusted basis, we look for total sales of 354,000 units, down 30.7 percent from December and down 3.3 percent year-on-year despite on additional sales day this January than last. In any given year, January is the weakest month for sales, and while the decline our forecast anticipates for this January is larger than the typical January decline, generous seasonal adjustment will salvage the seasonally adjusted and annualized sales number. To the surprise of no one, lack of inventory is the primary culprit behind weak January sales. Our forecast anticipates the January date will bring yet another record low for listings, with a double-digit over-the-year decline. With lean inventories having fueled robust price appreciation, rising mortgage rates will take another bite out of affordability.